

LIABILITIES AND STOCKHOLDER'S EQUITY

	<u>2013</u>	<u>2012</u>
Current liabilities		
Accounts payable	\$ 70,359	\$ 15,439
Accrued expenses and other current liabilities	103,007	21,541
Due to related parties	<u>332,990</u>	<u>469,136</u>
Total current liabilities	506,356	506,116
Deferred income taxes	<u>1,354,000</u>	<u>1,479,000</u>
Total liabilities	<u>1,860,356</u>	<u>1,985,116</u>
Commitment (Note 5)		
Stockholder's equity		
Common stock, no par value; 2,000 shares authorized; 100 shares issued and outstanding	-	-
Paid-in capital	4,119,509	4,119,509
Accumulated deficit	<u>(1,037,596)</u>	<u>(1,016,116)</u>
Total stockholder's equity	<u>3,081,913</u>	<u>3,103,393</u>
	 <u>\$ 4,942,269</u>	 <u>\$ 5,088,509</u>

LINCOLNVILLE NETWORKS, INC.
(A Wholly-Owned Subsidiary of Lincolnville Telephone Company)

Statements of Operations and Accumulated Deficit

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Basic local network services	\$ 472,014	\$ 478,032
Network access services	906,313	891,934
Miscellaneous	28,583	44,586
Uncollectible revenues, net of recoveries	<u>(1,712)</u>	<u>(1,488)</u>
Total operating revenues	<u>1,405,198</u>	<u>1,413,064</u>
Operating expenses		
Plant specific operations	179,239	183,857
Plant nonspecific operations	170,212	171,680
Depreciation and amortization	430,027	430,377
Customer operations	184,165	167,197
Corporate operations	<u>302,482</u>	<u>373,356</u>
Total operating expenses	<u>1,266,125</u>	<u>1,326,467</u>
Operating taxes		
Federal and state income taxes	22,800	(1,700)
Other operating taxes	<u>81,480</u>	<u>90,832</u>
Total operating taxes	<u>104,280</u>	<u>89,132</u>
Net income (loss)	34,793	(2,535)
Accumulated deficit, beginning of year	(1,016,116)	(710,457)
Less dividends	<u>56,273</u>	<u>303,124</u>
Accumulated deficit, end of year	<u>\$ (1,037,596)</u>	<u>\$ (1,016,116)</u>

The accompanying notes are an integral part of these financial statements.

LINCOLNVILLE NETWORKS, INC.
(A Wholly-Owned Subsidiary of Lincolnville Telephone Company)

Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Net income (loss)	\$ 34,793	\$ (2,535)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	430,027	430,377
Deferred income taxes	(125,000)	(65,000)
Decrease (increase) in		
Accounts receivable	(122,938)	(10,117)
Materials and supplies	-	(88)
Due from affiliates	-	452,755
Prepaid expenses and other current assets	(58)	9,752
Increase (decrease) in		
Accounts payable	54,920	3,780
Accrued expenses and other current liabilities	81,466	(293,004)
Due to affiliates	(136,146)	-
Other liabilities	-	(46,555)
Net cash provided by operating activities	<u>217,064</u>	<u>479,365</u>
Cash flows from investing activities		
Extension and replacement of telecommunications plant	<u>(108,981)</u>	<u>(176,172)</u>
Net cash used by investing activities	<u>(108,981)</u>	<u>(176,172)</u>
Cash flows from financing activities		
Payment of dividends	<u>(56,273)</u>	<u>(303,124)</u>
Net cash used by financing activities	<u>(56,273)</u>	<u>(303,124)</u>
Net increase in cash and cash equivalents	51,810	69
Cash and cash equivalents, beginning of year	<u>117,432</u>	<u>117,363</u>
Cash and cash equivalents, end of year	<u>\$ 169,242</u>	<u>\$ 117,432</u>

The accompanying notes are an integral part of these financial statements.

LINCOLNVILLE NETWORKS, INC.
(A Wholly-Owned Subsidiary of Lincolnville Telephone Company)

Notes to Financial Statements

December 31, 2013 and 2012

Nature of Operations

Lincolnville Networks, Inc. (the Company), a wholly-owned subsidiary of Lincolnville Telephone Company (its Parent), derives its operating revenues primarily from providing telecommunications and broadband services in Maine. The Company extends credit at standard terms, after appropriate review, to its subscribers and domestic interexchange carriers. Telecommunications services are subject to varying degrees of regulation by the Federal Communications Commission (FCC) and the Maine Public Utilities Commission (MPUC).

1. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Regulatory Accounting

The Company is subject to regulation of rates and other matters by the FCC and the MPUC. The Company follows the accounting prescribed by the Uniform System of Accounts of the FCC and the MPUC and Financial Accounting Standards Board Accounting Standards Codification (ASC) 980, *Regulated Operations*. This accounting recognizes the economic effects of rate regulation by recording costs and a return on investment, as such amounts are recovered through rates authorized by regulatory authorities. The Company annually reviews the continued applicability of ASC 980 based on the current regulatory and competitive environment.

Cash and Cash Equivalents

All liquid investments with an original maturity of three months or less are considered to be cash equivalents. The Company maintains its cash in bank accounts which may exceed federally insured limits; however, the Company's policy is to invest cash in excess of those limits in government-backed securities or accounts collateralized by bank-owned U.S. government securities or surety bonds. The Company has not experienced any losses in such accounts, and believes it is not exposed to any significant risk with respect to these accounts.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

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Notes to Financial Statements

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Materials and Supplies

Materials and supplies are valued at the lower of first-in, first-out (FIFO) cost or market.

Depreciation

Depreciation is computed on average plant investment by primary plant accounts using the straight-line method over the estimated useful lives of the assets. The Company assesses the estimated remaining useful lives of assets on an annual basis.

Capitalization Policy

Additions to plant and replacements of retirement units of property are capitalized at original cost, which includes labor, material and overhead, and direct charges such as equipment costs.

Intangible Asset Subject to Amortization

The intangible asset subject to amortization consists of a franchise license which is being amortized by the straight-line method over the asset's estimated useful life of thirty years.

Sales Taxes

The Company reports sales taxes on a net basis; accordingly, they are recorded as a liability when collected from customers and excluded from revenues and expenses.

Income Taxes

Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The Company files a consolidated tax return with its Parent. Income taxes are allocated to the Company based on the statutory rates of the consolidated group applied to its separate income before income taxes.

As of December 31, 2013, tax years after 2009 remain subject to examination by federal and state authorities.

LINCOLNVILLE NETWORKS, INC.
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Notes to Financial Statements

December 31, 2013 and 2012

Revenue Recognition

Operating revenues are recognized when services are provided to customers.

Interstate network access revenues are based on estimates of the telephone plant investment, operating expenses, and allowable rates of return on investments allocable to those services. Nationwide pooling of the revenues is administered by National Exchange Carrier Association (NECA), of which the Company is a member. NECA files interstate access charge tariff schedules with the FCC and accumulates and distributes pooled revenues, derived from interstate access services, to its members. The Company records the effect of NECA settlements, including retroactive adjustments, if applicable, upon notification of such settlements from NECA.

Intrastate network originating and terminating access service revenues result from charges to interexchange carriers based on applying intrastate access tariffed rates to intrastate access usage.

Effective July 1, 2012, interstate and intrastate terminating network access revenues were set at predetermined levels subject to the provisions of the FCC Order on Intercarrier Compensation and Universal Service Fund. The effect will be to reduce these network access revenues over a ten-year period.

Subsequent Events

For purposes of preparation of these financial statements in conformity with U.S. generally accepted accounting principles, the Company has considered transactions or events occurring through March 10, 2014, which was the date the financial statements were available to be issued.

Reclassifications

Certain 2012 amounts have been reclassified to conform to the 2013 presentation.

2. Telecommunications Plant Adjustment

A telecommunications plant adjustment of \$2,222,957, net of accumulated amortization of \$632,809 and \$515,078 at December 31, 2013 and 2012, respectively, which is included in property, plant and equipment in the balance sheets, is a regulatory adjustment representing the difference between the fair value of the property, plant and equipment acquired and the original cost of the plant, less the associated depreciation. The Company is amortizing the adjustment over a period of seven to thirty years which approximates the estimated remaining useful lives of the underlying assets. Amortization expense included in depreciation and amortization expense in the statements of operations was \$117,731 in 2013 and 2012. This amortization is not recoverable through rates, as mandated by a stipulated agreement with the MPUC.

LINCOLNVILLE NETWORKS, INC.
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Notes to Financial Statements

December 31, 2013 and 2012

3. Intangible Asset Subject to Amortization

The intangible asset consists of a franchise license of \$1,338,048, net of accumulated amortization of \$239,734 and \$195,142 at December 31, 2013 and 2012, respectively. Amortization expense approximated \$44,600 in 2013 and 2012. Estimated amortization expense through 2018 is as follows:

2014	\$ 44,600
2015	44,600
2016	44,600
2017	44,600
2018	44,600

4. Income Taxes

The actual tax expense differs from that computed at a federal rate of 34% primarily because of state income taxes.

The components of income tax expense (benefit) at December 31 are as follows:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
<u>2013</u>			
Federal income tax	\$ 118,000	\$ (100,000)	\$ 18,000
State income tax	<u>29,800</u>	<u>(25,000)</u>	<u>4,800</u>
	<u>\$ 147,800</u>	<u>\$ (125,000)</u>	<u>\$ 22,800</u>
<u>2012</u>			
Federal income tax	\$ 51,900	\$ (53,000)	\$ (1,100)
State income tax	<u>11,400</u>	<u>(12,000)</u>	<u>(600)</u>
	<u>\$ 63,300</u>	<u>\$ (65,000)</u>	<u>\$ (1,700)</u>

Amounts payable to the parent for current income taxes are included in due to related parties at December 31, 2013 and 2012.

The deferred tax liability consists primarily of temporary differences related to depreciation and amortization.

LINCOLNVILLE NETWORKS, INC.
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Notes to Financial Statements

December 31, 2013 and 2012

5. Related Parties

The Company provides to and receives from related parties through common ownership various network, management, and operation services under an intercompany management services agreement, which has been approved by the MPUC. Charges between these related parties in 2013 and 2012 approximated:

	<u>2013</u>	<u>2012</u>
Provided to:		
Coastal Telco Services, Inc.	\$ 155,000	\$ 119,000
Lincolnville Communications, Inc.	63,000	63,000
Received from:		
Coastal Telco Services, Inc.	\$ 628,000	\$ 664,000

The Company, its Parent and its subsidiaries' assets are collateral in a loan agreement entered into by its Parent. The loan is due in quarterly installments through June 30, 2018, when the balance is due in full. The Parent's outstanding balance on the loan was \$17,169,822 and \$19,169,822 at December 31, 2013 and 2012, respectively. The Company does not presently expect to be required to perform on its obligations under the loan agreement.



There was no Management Letter issued in connection with the audit of the December 31, 2013 financial statements of Lincolnville Networks, Inc.



<010> Study Area Code	100003
<015> Study Area Name	LINCOLNVILLE TELEPHONE COMPANY
<020> Program Year	2015
<030> Contact Name - Person USAC should contact regarding this data	Jim Sanborn
<035> Contact Telephone Number - Number of person identified in data line <030>	2075639910 ext.
<039> Contact Email Address - Email Address of person identified in data line <030>	jims@intelco.net

TO BE COMPLETED BY THE REPORTING CARRIER, IF THE REPORTING CARRIER IS FILING ANNUAL REPORTING ON ITS OWN BEHALF:

Certification of Officer as to the Accuracy of the Data Reported for the Annual Reporting for CAF or LI Recipients	
I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate.	
Name of Reporting Carrier: LINCOLNVILLE TELEPHONE COMPANY	
Signature of Authorized Officer: CERTIFIED ONLINE	Date 06/09/2014
Printed name of Authorized Officer: Shirley Manning	
Title or position of Authorized Officer: President	
Telephone number of Authorized Officer: 2075639911 ext.	
Study Area Code of Reporting Carrier: 100003	Filing Due Date for this form: 06/30/2014
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	